

PREMIER PENSIONS MANAGEMENT

LEGISLATION UPDATE : 22/06

Primary and Enhanced Protection Registration

The purpose of this note is to set out some of the issues to be considered and to make suggestions about an appropriate process for dealing with the pension limit simplification changes which took effect from 6 April 2006. Appendix 1 contains Premier Pensions Update No: 15 which details the background to some of the issues involved.

Overview

- Whilst the threshold for tax efficient pension benefits is now set at a Life Time Allowance (LTA) of £1.5m for 2006/2007, it would be appropriate for the Company to notify individuals whose known benefits are less than this, say £1.2m. This is because:
 - It is unlikely that the Company will be aware of all the individual's pension entitlements before employment commenced.
 - It acts as an early warning to the individual and makes them aware of the potential issues involved.
- Most schemes have already implemented or agreed procedures for checking LTA and annual allowance limits. The typical approach is to advise members of their position in respect of the annual allowance, by adding additional detail to annual benefit statements. Although the onus for applying for protection is with the member, there are some additional procedural changes that must be implemented, especially for schemes with high accrual, or members with high pensionable earnings.
 - It would be useful for a suitable statement as at April 2006 to be issued to individuals in excess of £1.2m to help members decide if they need protection. The communication should provide details of the capital value of their benefits prior to 06 April 2006, explain the background and seek the information about other benefits to enable the total position to be quantified.
- Most schemes have satisfied this requirement by running a single project to identify members approaching the LTA. There are however some ongoing procedural changes that will need to be made in order to monitor and control this process on an annual basis and to follow-up on the initial communication.
- The assessment of the un-crystallised accrued benefits for final salary schemes, requires a value assuming retirement at age 60 (using pensionable service to 5 April 2006). This would be the figure used to determine the Personal LTA (PLTA) where appropriate.
 - For those individuals who, based upon current Company Scheme benefits, are ahead of the £1.5m cap and are age 50 or over, it may be appropriate to tailor the communication reflecting their particular benefit structure as their benefits could be higher in the event of early retirement, ill health retirement or redundancy.

- If there is a chance that retirement could take place in the next couple of years, it would cause the administrator difficulty if benefits are to be settled where the LTA had been exceeded and the individual has not made the relevant application for primary protection. It therefore follows that the individual should be encouraged to make the appropriate application to obtain an HMRC Certificate containing a unique reference number.

Ongoing Process Details for Monitoring and Managing High Liability Members Approaching or at LTA Limits

Set out below are some of the additional requirements and recommendations for monitoring and controlling high liability members approaching the LTA:

Requirement	Description	Recommendation
Calculate & Record Capital Values	Capital value is used to calculate member's position in respect of Life Time and Annual Allowances.	Introduce functionality to calculate the capital value of a member's benefits and use this value when comparing benefits to allowances. Create new data fields on administration platform to record capital value.
Communicating the Annual Position	Regular updates need to be provided to members of how their benefits compare to the LTA.	Updates provided using annual benefit statements or P60's. Most administrators are opting to provide this detail with benefit statements.
Identify Protected Members	After initial exercise has been completed and members have subsequently elected, and been granted, Protection - actions will need to be taken to ensure relevant benefit accruals are not exceeded.	Create new data fields on administration platform to include: Protection type, enhanced protection figures and additional update fields should protection be modified.
Leavers	Leavers must sign a declaration to the effect that benefits are within LTA or PLTA. Failure to complete means that schemes must assume all benefits are taken as pension and deduct the full recovery charge.	Amend standard documents to introduce LTA/PLTA declaration. Implement procedures to determine any excess above LTA and calculate, and account for, any recovery charge on failure to present declaration.
LTA Tests on Benefit Crystallisation Events	Whenever a Benefit Crystallisation Event (BCE) occurs an LTA test must be performed.	Create and implement procedures for identifying any of the 8 Benefit Crystallisation Events.
New Entrants	New entrants may have already been granted protection or be approaching the LTA.	Update application forms to capture details of PLTA and protection that has already been granted.

Record LTA	Record LTA and future changes to this value.	Create new data field on administration platform.
Record PLTA	For a member whose benefits exceed the LTA at A-day and elect for primary protection, the capital value of their pension benefits at A Day becomes their PLTA.	Create new data field on administration platform. Increase PLTA annually in accordance with prescribed increase to the Lifetime Allowance.
Reporting Requirements	Produce additional reports detailing where members exceed LTA or where Protection is granted.	Create new reports from administration platform detailing which members have been granted Protection. Annually review and report position in respect of members exceeding LTA to Trustees as requested.

There are other procedures that need to be implemented for monitoring 'Annual Allowances' but these are more likely to impact:

- i) high earners and contributors further away from the LTA
- ii) members with high contributions who are likely to exceed the LTA before exceeding the annual allowance.

Tax simplification will require schemes to make a number of new returns to HMRC and it has been announced that from A Day all registered pension schemes will be required to send forms online and make payments electronically. This will impact on the scheme administrator who should consider whether to pre register for online services. This requirement should be accounted for when considering the implications and management of members who exceed or approach the LTA.

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*This update includes general information and cannot be relied upon for individual schemes issues. You should contact your adviser or P Couchman at Premier Pensions Management Ltd, Capital Business Centre, Units 14 & 15, 22 Carlton Road, South Croydon, Surrey, CR2 0BS.
DL: 020 8916 2129. Email: paul.couchman@premierpensions.co.uk,
if you require definitive advice*

Appendix 1 - Premier Pensions Management Update: 15/06

Primary / Enhanced Protection

This update note summarises the key points in relation to individuals who wish to register for primary or enhanced protection which took effect from “A” day – 6 April 2006.

Process for Registration

- Prior to registering for protection, individuals need to obtain statements from **all** their pension providers of the value of their total pension rights.
- Inland Revenue checks will need to have been made to make sure their benefits do not exceed the old limits. Before applying for Enhanced Protection any excess will need to be surrendered.
- To register, Form APSS200 needs to be submitted by 5 April 2009 for protection to be valid. If retirement is due soon registration should be as soon as possible. The individual **must** complete and sign the Form.
- HMRC will issue a certificate containing a unique reference number confirming details of the protection. At retirement this reference number needs to be provided to the Scheme Administrator.
- Individuals need to retain the initial valuations and statements for at least 6 years after completing the Form. HMRC has the ability to review the information used.

Primary Protection Summary

This is where the value of A-day benefits will be expressed as a percentage of the current lifetime limit (£1.5 million for 2006/2007 tax year) and that percentage will continue to be exempt from any tax recovery charge. Thus for example, a person with a total fund valued at £2.25 million on A-day will always be able to have 150% of the limit, whatever level it is in the future, and only incur a tax charge on the excess over 150%.

- Once applied and accepted, this cannot be lost in the future.
- It is not necessary “per se” to restrict future accrual or contributions, however the individual would wish to be advised of the additional pension accrual or contributions made after 6 April 2006 as there would be an additional tax charge on this element.

Enhanced Protection (EP) Summary

This is where before A-day, anyone could cease active membership of their Scheme and their ultimate fund, however much it was, would not be subject to a recovery charge when they retired in the future. This option can be revoked at any time before age 75. This is more restricting than Primary Protection and:

- Further accrual should have ceased at 6 April 2006.

- EP can be lost if relevant pension benefit accrual/contributions occurs after 6 April 2006, such as:
 - In Defined Benefit Schemes relevant benefit accrual is complicated. In the majority of cases no further benefits can accrue. In rare cases, benefits may increase as long as this is less than 5% or RPI of lower.
 - In a Defined Contribution Scheme, this occurs if any contribution is made to a pension scheme on or after A-DAY, except for an Appropriate Personal Pension (APP), or to maintain an existing life assurance policy.
 - With continued life assurance cover there should be no major change to the policy (i.e. increase).
 - EP can also be lost on transfer from Defined Benefit Schemes but not from Defined Contribution Scheme.
 - If EP is lost it cannot be reinstated. Many individuals are therefore registering for Primary Protection as well to provide additional protection in the event that EP is lost in the future.

The information in this bulletin is based on our current understanding and should not be relied upon when making individual decisions. Individual Financial Advice from a qualified individual should be sought.

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